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**3 SEM TDC FIMGT 2 (Sp)**

**2 0 1 4**

( November )

**COMMERCE**

( Speciality )

Course : 302

**( Financial Management )**

Full Marks : 80

Pass Marks : 32

Time : 3 hours

*The figures in the margin indicate full marks  
for the questions*

**1. (a) Write 'True' or 'False' :** 1×3=3

- (i) The cost of capital is the minimum rate of return expected by its investors.
- (ii) Financial leverage is also known as composite leverage.
- (iii) Leasing benefits both the lessee as well as the lessor.

- (b) Choose the appropriate answer from the given alternatives :  $1 \times 2 = 2$

(i) The prime objective of an enterprise is

- (1) maximization of sales
- (2) maximization of owner's equity
- (3) maximization of profit

(ii) Non-members can trade in securities at stock exchanges with the help of

- (1) jobbers
- (2) brokers
- (3) authorised clerk

- (c) Fill in the blanks :  $1 \times 3 = 3$

(i) Corporation finance is a wider term than — finance.

(ii) Degree of financial leverage = —.

(iii) The volume of sales is influenced by — policy of a firm.

2. Write short notes on (any four) :  $4 \times 4 = 16$

- (a) Profit maximization
- (b) Trading on equity
- (c) Sweat equity shares
- (d) Dividend payout ratio
- (e) Working capital

3. (a) Define 'finance function'. Explain its role in a business firm. Discuss some of the crucial financial problems that a decision maker faces today.  $2+4+6=12$

Or

- (b) "Finance function of a business is closely related to its other functions." Discuss. 12

4. (a) A company is considering an investment proposal to purchase a machine costing ₹ 2,50,000. The machine has a life expectancy of 5 years and no salvage value. The company's tax rate is 40%. The firm uses straight-line method for providing depreciation. The estimated cash flows before tax after depreciation (CFBT) from the machine are as follows :

Year	CFBT (₹)
1	60,000
2	70,000
3	90,000
4	1,00,000
5	1,50,000

Calculate—

- (i) payback period;  
 (ii) average rate of return;  
 (iii) net present value at 10% discount rate.  $3+4+4=11$

You may use the following table :

Year	1	2	3	4	5
PV Factor at 10%	0.909	0.826	0.751	0.683	0.621

Or

- (b) What is 'financial leverage'? How does it magnify the revenue available for equity shareholders? Discuss the relationships between financial leverage and debt financing.  $2+4\frac{1}{2}+4\frac{1}{2}=11$

5. (a) What are the main sources of finance available to industries for meeting long-term financial requirements? Discuss. 11

Or

- (b) Comment on accounting policies and disclosures in relation to finance leases and operating leases prescribed in AS-19. 11

6. (a) Explain the various factors which influence the dividend decision of a firm. 11

Or

- (b) What do you mean by ploughing back of profit? What are the purposes of ploughing back? Discuss the different factors that influence the ploughing back of profits.  $2+4+5=11$

7. (a) What do you understand by receivable management? Discuss the factors which influence the size of receivables. 3+8=11

Or

- (b) The Board of Directors, Jonaki Engineering Co. Pvt. Ltd., requests you to prepare a statement showing the working capital requirements for a level of activity of 156000 units of production. The following information are available for your calculations : 11

	Per unit (₹)
Raw materials	90
Direct labour	40
Overheads	75
	<u>205</u>
Profit	60
Selling price	<u>265</u>

- (i) Raw materials are in stock on an average one month
- (ii) Materials are in process on an average two weeks
- (iii) Finished goods are in stock on an average one month
- (iv) Credit allowed by suppliers—one month
- (v) Credit allowed to debtors—two months

(vi) Lag in payment of wages—1½ weeks

(vii) Lag in payment of overheads—one month

20% of the output is sold against cash. Cash in hand and at bank is expected to be ₹ 60,000. It is to be assumed that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

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